

Message Text

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SUBJECT: CENTRAL BANK MOVES TO DAMPEN CONSUMER DEMAND

1. ON JULY 29 GOVERNOR OF CENTRAL BANK STEPHANI
INFORMED ALL COMMERCIAL BANKS OF STRINGENT NEW
MEASURES DESIGNED TO SELECTIVELY DAMPEN CONSUMER DEMAND.
WE ARE SOMEWHAT SURPRISED THAT LOCAL PRESS HAS NOT
YET REPORTED GOVERNOR'S LETTER ESPECIALLY AS WE
EXPECT VOCIFEROUS PROTESTS WHEN BUSINESS COMMUNITY
FINDS THAT PERSONAL OVERDRAFTS ARE TO BE SHARPLY
CURTAILED. BANKING CIRCLES ARE UPSET AND ANTICIPATE
CONSIDERABLE ADVERSE REACTION WHEN AUGUST VACATIONS END.

2. FOLLOWING MEASURES ARE PUT INTO EFFECT AS OF
AUGUST 1, 1978 UNDER SECTION 38 OF THE CENTRAL BANK
OF CYPRUS LAW.

A. NO NEW OR ADDITIONAL LOANS SHALL BE GRANTED TO
ANY PERSON WHOSE PRIMARY BUSINESS CONSISTS OF:
I. THE FINANCING OF HIRE PURCHASES TRANSACTIONS; OR
II. THE IMPORTATION OR DISTRIBUTION OF MOTOR-
VEHICLES OR OTHERWISE DEALING IN MOTOR-VEHICLES.

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B. NO NEW OR ADDITIONAL "PERSONAL OR PROFESSIONAL"
LOANS (I.E. OVERDRAFTS) SHALL BE GRANTED TO
ANY INDIVIDUAL UNLESS THE BANK GRANTING SUCH LOAN IS SATISFIED:
I. THAT THE LOAN WILL BE USED FOR THE INDIVIDUAL'S
PROFESSION OR OCCUPATION; OR
II. THAT IT WOULD OTHERWISE CAUSE HARDSHIP.
ALL NEW OR ADDITIONAL PERSONAL LOANS THAT MAY BE

GRANTED BY A BANK UNDER THIS PARAGRAPH MUST BE REPORTED MONTHLY; SUCH REPORT SHALL ACCOMPANY THE MONTHLY BALANCE SHEET, I.E. IT MUST BE SUBMITTED TO REACH THE CENTRAL BANK BY THE 15TH OF THE FOLLOWING MONTH.

C. LOANS OUTSTANDING TO ANY PERSON WHOSE PRIMARY BUSINESS CONSISTS OF FINANCING OF HIRE PURCHASE TRANSACTIONS SHALL BE REDUCED BY THE END OF DECEMBER, 1978 TO LEVEL 10 PERCENT BELOW THE LEVEL OF SUCH LOANS OUTSTANDING AS OF 30TH JUNE, 1978. THE REDUCTION MUST BE AT A RATE OF NOT LESS THAN 2 PERCENT CUMULATIVE PER MONTH.

D. FOR THE PURPOSE OF THESE MEASURES:

I. "PERSON" INCLUDES A COMPANY,

II. LOAN IN RELATION TO A PERSON INCLUDES LOANS, ADVANCES, OVERDRAFTS, THE DISCOUNT OF ANY PAPER OF WHICH THAT PERSON IS EITHER A DRAWER, ACCEPTOR OR ENDORSER, THE GRANTING OF ANY FINANCIAL GUARANTEE OR THE UNDERTAKING OF ANY OTHER LIABILITY BY THE BANK ON HIS BEHALF.

E. ALL EXISTING LOANS FALLING UNDER PARAGRAPH A(I) AND (II) ABOVE SHALL BE REPORTED TO THE CENTRAL BANK NOT LATER THAN THE 15TH OF AUGUST, 1978.

3. MEASURES HAVE BEEN TAKEN TO REDUCE INFLATIONARY PRESSURES CAUSED BY GROWING BALANCE OF TRADE DEFICIT. FIGURES FOR FIRST FOUR MONTHS OF 1978 SHOW TRADE GAP OF 55.4 MILLION CYPRUS POUNDS (CP) COMPARED UNCLASSIFIED

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WITH DEFICIT OF 38.3 MILLION CP IN SAME PERIOD 1977, AN INCREASE OF ALMOST 45 PERCENT. RESTRICTIONS PARTICULARLY AIMED AT AUTOMOBILES BECAUSE OF MAJOR INCREASE OF IMPORTS IN "MACHINERY AND TRANSPORT EQUIPMENT" CATEGORY. IMPORTS FOR FIRST FOUR MONTHS OF 1977 TOTALLED 17 MILLION CP WHILE TOTAL FOR SAME PERIOD 1978 WAS 28.9 MILLION CP.
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